

United States Senate

WASHINGTON, DC 20510

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August 2, 2006

The Honorable Henry M. Paulson, Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Secretary Paulson:

As our country is being hit by a harrowing heat wave, our producers continue to feel the impacts of a multi-year drought. We are writing today to request that the capital gains tax deferment period established under Section 1033(e) of the Internal Revenue Code be extended for those livestock producers who were forced to sell off large portions of their draft, breeding or dairy stock as a result of egregious drought conditions in 2002.

In recognition of the extreme drought conditions faced by many producers, Congress, in 2004, amended Section 1033(e) to extend the tax deferment period for weather-related sales of livestock – known as involuntary conversions – from two to four years. The amendment also included a provision giving the Secretary of the Treasury the authority to further extend this deferment period for such additional time as the Secretary determines appropriate. Although producers welcomed the extension and hoped they would be able to replenish their herds by 2006, many portions of the regions most severely impacted by the drought in 2002 remain classified as “extreme” or “exceptional” drought areas, as determined by the U.S. Drought Monitor.

Persisting drought conditions have left forage sources unfortunately scarce, and it is currently not in the best interest of livestock producers to replace livestock. However, these producers would be required to purchase replacement animals to avoid realizing the gain from their 2002 weather-related livestock sales. As such, an appropriate extension of the capital gains tax deferment period would allow producers to re-invest at a more reasonable and opportune time and help them avoid suffering further losses due to uncontrollable drought conditions.

A further extension of this deferment period is important to the producers in our states who continue to suffer from the devastating effects of the drought. We greatly appreciate your consideration of our request.

Sincerely,

The signature of E. Benjamin Johnson is written in black ink. It is a cursive signature that starts with a large 'E' and ends with a long, sweeping tail that extends to the right.The signature of Craig Thomas is written in black ink. It is a cursive signature that starts with a large 'C' and ends with a long, sweeping tail that extends to the right.

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Ernest R. Brown

Wayne Allard

Michael B. Ensign

James Johnson

Sam F. Hamback

Kent Conrad

Tim Wirth

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